

**2007-2008  
MID-YEAR BUDGET REVIEW  
Section I**

**STATUS OF SELECTED SPECIAL FUNDS**

The large majority of special fund operating budgets are tracking within estimated levels. A number of these funds, however, have been negatively impacted by the current economic conditions. Following are status reports for selected special operating funds that have significant revenue and/or expenditure variances from the modified budget or other issues of interest through the first six months of the year. As a result of our review of these funds, several actions are recommended as part of this report to address variances that have been identified to date and bring expenditure appropriations and/or revenue estimates back in line with revised projections. These funds will continue to be monitored to ensure they stay at appropriate levels through the end of the year.

**Airport Operating Funds Overview**

**Airport Activity**

Activity at Mineta San José International Airport through mid-year has shown mixed results compared to last fiscal year-to-date activity. Passenger traffic, landings, and takeoffs exceeded the prior year levels while cargo weights and rental car activity trailed prior year levels.

During the first six months of 2007-2008, one new commuter airline, ExpressJet Airlines (doing business as Delta Express), began service with four daily flights to Los Angeles. Overall year-to-date passenger activity increased only slightly, by 4,573 passengers, or 0.1%. Operations at the Airport (landings and takeoffs) increased by a slightly larger amount (2.5%), with passenger carrier operations remaining constant and commuter activity increasing 10.3% resulting from the new service provided

by ExpressJet Airlines. Rental car contracts, representing activity through November, trailed last year by 1.2% and cargo activity has declined 5.7%. Parking hourly exits were down by 6.2% for the year and daily exits decreased by 2.5%. As a result, parking revenue was down 1.7% from the previous year. General Aviation itinerant, local, and military operations activity increased by 6.8% from last year.

Although overall passenger traffic has not kept pace with projections, the Airport's fiscal situation remains stable. Revenues to date are slightly higher than projected and due to the continuation of a high number of vacancies, personal services expenditures tracked significantly below budgeted levels. The Airport will continue to carefully monitor activity, as well as the fiscal impacts, and report on the same in the Monthly Financial Report.

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**Airport Revenues**

As of December 31, 2007, year-to-date operating revenues in the Airport Revenue Fund, excluding carryover surplus and coverage, totaled \$54.0 million. Revenues were 5.5% higher than the budgeted estimate and were greater than the same period of the prior year. Overall revenue performance is moderate, however terminal rentals, terminal concessions and miscellaneous rents performed strongly. Consistent with prior years, certain revenues were not recorded in December due to the closure of City offices for the holiday furlough.

The Airport will continue to closely monitor the impact of construction activities on Airport parking and concession revenues. Both parking spaces and concession locations have recently been reduced in order to create space for capital construction activity. In addition, the introduction of the new airline agreements on December 1, 2007 changes the rates for landing fees and terminal rents. During the second half of the year, it is anticipated that landing fees will increase and terminal rents will decrease. Both of these factors could have an impact on actual revenue collections in 2007-2008, and the extent of the impacts will be reported in the Monthly Financial Reports and included in the 2008-2009 Proposed Budget.

**Airport Expenditures**

Overall, expenditures in Airport Operating funds are tracking below year-to-date estimates. Unlike the previous six years, a Cost/Position Management Plan was not considered necessary for 2007-2008. Several factors, including expenditure savings in 2006-2007 and debt restructuring, have provided a stable budget position for the Airport. However, the conservative approach to spending adopted in previous years continues in the current year.

Two operating funds exist to finance Airport services: the Airport Maintenance and Operation Fund; and the Airport Customer Facilities and Transportation Fee Fund. The Airport Maintenance and Operation Fund provides funding for personal and non-personal/equipment expenditures associated with Airport operations, including but not limited to, Airport staff, Airport police services, Station 20 aircraft rescue and fire fighting services, interdepartmental charges, and overhead to the General Fund. The Airport Customer Facilities and Transportation Fee Fund accounts for costs associated with rental car busing services between the consolidated rental car facility and the terminals.

Airport Maintenance and Operation Fund departmental expenditures through December are tracking below budgeted levels in both personal services and non-personal/equipment categories.

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**Airport Expenditures (Cont'd.)**

Personal services costs in the Airport Customer Facilities and Transportation Fee Fund are also tracking below estimated levels due to a staff vacancy. Non-personal/equipment expenditures are tracking below budgeted levels primarily due to reduced shuttle bus expenses resulting from a reduction to the size of the shuttle bus fleet. New Compressed Natural Gas (CNG) shuttle buses, which will replace the current diesel buses in the rental car fleet, are expected in April 2008. Once received, the entire Airport

shuttle bus fleet - parking and rental car - will operate on alternatively fueled ("clean") vehicles.

In summary, although overall activity at the Airport is not meeting growth projections, revenues are still running slightly higher than budgeted and expenditures are tracking less than budgeted. A more detailed financial summary of the mid-year status of the Airport Maintenance and Operation Fund and the Airport Revenue Fund are included in the next section of this document.

**Airport Maintenance and Operation Fund**

	<b>2007-2008 Adopted Budget</b>	<b>Change</b>	<b>2007-2008 Current Modified</b>	<b>2007-2008 YTD Actual</b>	<b>2007-2008 % of Budget</b>	<b>2006-2007 % of Budget</b>
<i>Beginning Fund Balance</i>	8,983,343	475,422	9,458,765	N/A	N/A	N/A
<i>Encumbrance Reserve</i>	5,081,974	(828,251)	4,253,723	N/A	N/A	N/A
<i>Revenues</i>	107,210,201	0	107,210,201	53,605,098	50.0%	49.8%
<b><i>TOTAL SOURCES</i></b>	121,275,518	(352,829)	120,922,689	53,605,098		
<i>Expenditures</i>	102,511,103	5,270,123	107,781,226	45,784,939	42.5%	35.9%
<i>Encumbrance Reserve</i>	5,081,974	(5,081,974)	0	N/A	N/A	N/A
<i>Other Reserves</i>	3,779,080	(787,755)	2,991,325	N/A	N/A	N/A
<b><i>Ending Fund Balance - Reserved per Master Trust Agreement</i></b>	3,016,772	867,461	3,884,233	N/A	N/A	N/A
<b><i>Ending Fund Balance - Other Reserves</i></b>	6,886,589	(620,684)	6,265,905	N/A	N/A	N/A
<b><i>TOTAL USES</i></b>	121,275,518	(352,829)	120,922,689	45,784,939		

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**Airport Maintenance and Operation Fund**  
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**Fund Status**

Revenues – Revenue for this fund consists of a transfer from the Airport Revenue Fund. The 2007-2008 transfer into the Airport Maintenance and Operation Fund continues to occur as budgeted. An increase to the transfer from the Airport Revenue Fund totaling \$79,700 is recommended to recognize additional revenue associated with a grant from the Valley Transportation Authority (VTA). The grant provides supplemental financial support to the Airport's existing Ground Transportation Compressed Natural Gas (CNG) Conversion Incentive program. Airport Ground Transportation vehicle owners, mainly taxis and shuttle vans, will benefit from financial incentives to replace or convert existing vehicles to alternatively fueled ("clean") vehicles.

Expenditures – Expenditures in this fund represent operating costs for the Airport, direct charges from various City departments that provide support services to the Airport, and transfers to the General Fund for Police and Fire services. Through December, both Airport personal and non-personal/equipment expenditures were tracking below budgeted levels.

In personal services, the Airport Department continued to operate with significant vacancies. In December there were 50.6 vacancies, while the average number of vacant positions during the first six months of 2007-2008 was

45.7. The Airport expended \$190,440 or 49.0% of its overtime budget through December. This represented an increase from 2006-2007 of \$26,087 or 15.9% in overtime expenditures. At this time it is anticipated that 2007-2008 overtime expenditures may exceed budget by year-end. Historically, overtime is primarily used for providing coverage for vacant positions and the need to maintain constant staffing levels. While this continues to apply, unique projects in the current year also require the use of overtime. The Airport is in the process of upgrading the network and installing software updates after hours to minimize disruption to users. Additionally, technology overtime services have been provided in relocating tenants to support the Terminal Area Improvement Program (TAIP). Overtime expenditures will be closely monitored for the balance of the fiscal year.

Current savings in non-personal/equipment expenditures for Airport operations are widespread across most categories. Conservative spending, as in previous years, continues to generate savings. Additionally, lower than anticipated rate increases for the parking shuttle bus operator and private security agreements resulted in contractual services savings. One category of expenditures that will be closely monitored is vehicle maintenance and operating costs. Year-to-date expenses show increases in equipment repair and parts mainly due to the aging fleet of vehicles and equipment.

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**Airport Maintenance and Operation Fund**  
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**Fund Status (Cont'd.)**

Expenditures (Cont'd.)

Interdepartmental expenditures (charges for staff and services located in other City departments including Police and Fire) totaled \$12.6 million through December and tracked at anticipated levels. It is recommended in this report to increase the transfer for Police Services by approximately \$977,000 to fund added police overtime expenses related to checkpoint staffing which have accrued due to the continuation of Level Orange Alert security enhancements instituted in August 2006. Additionally, as described in the Revenue section above, an increase of \$79,700 is

recommended to the Airport Non-Personal/Equipment appropriation to recognize grant revenue from the VTA. These grant funds will be used, along with curfew fine moneys, to provide financial incentives to encourage Airport Ground Transportation operators to replace or convert existing vehicles to alternatively fueled ("clean") vehicles.

Airport Workers' Compensation claims to-date totaled \$151,485 (27.1% spent), a decrease of \$150,404 from the mid-year total for 2006-2007.

Fund Balance – No adjustment to the ending fund balance in the Airport Maintenance and Operation Fund is recommended at this time.

**Airport Revenue Fund**

	2007-2008 Adopted Budget	Change	2007-2008 Current Modified	2007-2008 YTD Actual	2007-2008 % of Budget	2006-2007 % of Budget
<i>Beginning Fund Balance</i>	12,172,346	9,861,594	22,033,940	N/A	N/A	N/A
<i>Revenues</i>	117,310,993	0	117,310,993	53,978,605	46.0%	46.8%
<i>Transfers</i>	11,712,270	0	11,712,270	0	N/A	N/A
<b>TOTAL SOURCES</b>	141,195,609	9,861,594	151,057,203	53,978,605		
<i>Expenditures</i>	132,683,309	0	132,683,309	59,797,179	45.1%	45.0%
<i>Unrestricted Ending Fund Balance</i>	8,512,300	9,861,594	18,373,894	N/A	N/A	N/A
<b>TOTAL USES</b>	141,195,609	9,861,594	151,057,203	59,797,179		

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**Airport Revenue Fund**  
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**Fund Status**

Revenues – As indicated in the overview, despite the lack of growth in activity at the Airport, overall revenue collections in the Airport Revenue Fund are tracking slightly above the estimated budget. Overall, performance of airline rates and charges revenue categories exceed the budgeted benchmark by 2.4%. Increased terminal rental rates boosted the terminal rental category while a decrease in the landing fee rate partially offset the gain. Airfield revenues are tracking at 12.8% above the budgeted estimate primarily due to higher ground concession fee and in-flight kitchen revenues.

The increased collection levels in terminal concessions and miscellaneous rents can be attributed to a variety of factors, in particular; higher holdroom and baggage claim fees, advertising, food and beverage, and other space rent, which are partially offset by lower than projected Orange Alert surcharge revenue.

Parking and roadway revenues also performed above budgeted levels. The 5.9% decline of short-term parking collections was accompanied by a slight understatement of certain revenues that were not recorded in December due to the closure of City offices for the holiday furlough. An increase in rental car concession fees pushed revenue in this category ahead of the year-to-date estimate. Receipt of a Compressed Natural Gas (CNG) tax credit and the increased transfer

of interest and excess reserve from the Fiscal Agent contributed to a 1.7% increase over budget in general and non-aviation revenues. The increase is partially negated by lower than anticipated investment income and the delayed receipt of fuel farm rental fees.

Petroleum program revenues exceeded mid-year budget estimates by 9.2%, which can be attributed to higher ground fuel sales and strong demand for compressed natural gas.

A reallocation of Construction Laydown revenue is recommended in this document, which shifts this revenue from an Airport Operating Fund to an Airport Capital Fund. There is also an increase of \$79,700 to recognize additional revenue associated with a grant from the Valley Transportation Authority (VTA). In addition, a transfer from the General Fund is recommended to recognize previous years' savings (\$647,000) associated with Airport police services.

Expenditures – Expenditures in this fund consist entirely of transfers to other funds. Transfers are made on a monthly basis in accordance with the Master Trust Agreement. A \$79,700 increase to the Airport Maintenance and Operation Fund transfer is recommended for grant funds received from the VTA to provide supplemental financial support to the Airport's existing Ground Transportation CNG Conversion Incentive program. Additionally, a

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**Fund Status (Cont'd.)**

Expenditures (Cont'd.)

\$1,125,000 decrease in the transfer to the Airport Surplus Revenue Fund corresponds to the decision to recognize construction laydown revenue directly into the Capital program.

Fund Balance – The Fund Balance will increase as a result of the reimbursement of \$647,000 in prior years' Airport Police Services savings.

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**Convention and Cultural Affairs Fund**

	<b>2007-2008 Adopted Budget</b>	<b>Change</b>	<b>2007-2008 Current Modified</b>	<b>2007-2008 YTD Actual</b>	<b>2007-2008 % of Budget</b>	<b>2006-2007 % of Budget</b>
<i>Beginning Fund Balance</i>	2,088,479	1,991,877	4,080,356	N/A	N/A	N/A
<i>Encumbrance Reserves</i>	150,320	188,112	338,432	N/A	N/A	N/A
<i>Revenues</i>	18,535,173	150,000	18,685,173	8,288,514	44.4%	38.0%
<b><i>TOTAL SOURCES</i></b>	<b>20,773,972</b>	<b>2,329,989</b>	<b>23,103,961</b>	<b>8,288,514</b>		
<i>Expenditures</i>	16,064,246	1,864,289	17,928,535	8,491,980	47.4%	51.8%
<i>Encumbrance Reserves</i>	150,320	(150,320)	0	N/A	N/A	N/A
<i>Other Reserves</i>	200,000	500,000	700,000	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	4,359,406	116,020	4,475,426	N/A	N/A	N/A
<b><i>TOTAL USES</i></b>	<b>20,773,972</b>	<b>2,329,989</b>	<b>23,103,961</b>	<b>8,491,980</b>		

**Fund Status**

Revenues – On an overall basis, revenues in the Convention and Cultural Affairs Fund are tracking as anticipated. Team San José (TSJ) management continues to actively evaluate the current business environment and identify potential business opportunities to increase revenue. Through December, according to TSJ, Building Rental revenues are tracking as expected, as are most other revenue sources such as labor and equipment rentals.

Approximately 44% (\$8.3 million) of the Fund's revenues (\$18.7 million) came from transfers from the Transient Occupancy Tax

Fund and the General Purpose Parking Fund. Those transfers were made based on budgeted estimates.

Expenditures – Expenditures through December in the Convention and Cultural Affairs Fund are tracking below expected levels in personal services due to high vacancy levels. Conversely, non-personal/equipment expenditures are tracking slightly above anticipated levels due to the use of contract labor to cover vacancies. A transfer of personal services savings to the Non-Personal/Equipment appropriation in the amount of \$200,000 is recommended in this report to better align the budget with contract labor costs.



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**Convention and Cultural Affairs Fund  
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**Fund Status (Cont'd.)**

Fund Balance – No adjustments to the Ending Fund Balance in the Convention and Cultural Affairs Fund will be required at this time.

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**Transient Occupancy Tax Fund**

	<b>2007-2008 Adopted Budget</b>	<b>Change</b>	<b>2007-2008 Current Modified</b>	<b>2007-2008 YTD Actual</b>	<b>2007-2008 % of Budget</b>	<b>2006-2007 % of Budget</b>
<i>Beginning Fund Balance</i>	3,752,561	423,566	4,176,127	N/A	N/A	N/A
<i>Encumbrance Reserve</i>	78,258	48,439	126,697	N/A	N/A	N/A
<i>Revenues</i>	13,450,000	0	13,450,000	5,552,798	41.3%	43.2%
<b><i>TOTAL SOURCES</i></b>	17,280,819	472,005	17,752,824	5,552,798		
<i>Expenditures</i>	15,940,693	454,773	16,395,466	8,051,520	49.1%	33.3%
<i>Encumbrance Reserve</i>	78,258	(78,258)	0	N/A	N/A	N/A
<i>Other Reserves</i>	90,000	0	90,000	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,171,868	95,490	1,267,358	N/A	N/A	N/A
<b><i>TOTAL USES</i></b>	17,280,819	472,005	17,752,824	8,051,520		

**Fund Status**

Revenues – Revenues in the Transient Occupancy Tax Fund are tracking above budgeted levels. For 2007-2008, the Adopted Budget estimate assumed a growth rate of 7% over estimated 2006-2007 receipts. However, because 2006-2007 revenue levels exceeded projections, only 4% growth is needed in 2007-2008 to meet the budgeted level by year end. Half way through the year, revenues are running approximately 13% above prior year levels.

Overall, occupancy rates for the first six months of the fiscal year averaged 58.6%, which is slightly higher than last year's level of 57.4%. Room rates have also increased slightly from last year's average of \$125.1 to \$138.0. If

current trends continue, revenue could end the year approximately 10%-15% above budgeted levels.

Expenditures – Expenditures through December in the Transient Occupancy Tax Fund are tracking as anticipated. The year-to-date expenditures are higher compared to 2006-2007 due to a change in how the scheduled payments to the Convention and Visitors Bureau (CVB) are charged. Payments to CVB are split between the General Fund and the Transient Occupancy Tax Fund. Previously, due to declining collections which resulted in cash flow issues, all payments to CVB were charged to the General Fund appropriation first, and when that appropriation was exhausted, charges were made to the Transient Occupancy Tax

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**Transient Occupancy Tax Fund**  
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**Fund Status (Cont'd.)**

General Fund and in this fund during the entire year.

*Expenditures* (Cont'd.)

Fund. Since then, collections in this fund have recovered and it is no longer necessary to charge these payments first to the General Fund. All payments are now split accordingly in the

*Fund Balance* – No adjustments to the Ending Fund Balance in the Transient Occupancy Tax Fund are required.